FISCAL AUDIT GUIDELINES FOR COUNTY CHILDREN AND FAMILIES COMMISSIONS

JULY 1, 2003 THROUGH JUNE 30, 2004

(A) AUDIT REQUIREMENTS

Each County Children and Families Commission shall conduct and submit to First 5 California by October 15th of each year, an audit of the required financial statements, and a review of County Commission's management of its funds and fiscal compliance with applicable policies, laws, regulations, and program requirements.

The audit shall be performed in accordance with Generally Accepted Auditing Standards, as promulgated by the American Institute of Certified Public Accountants, and Generally Accepted Governmental Auditing Standards issued by the General Accounting Office and Comptroller General of the United States of America.

An independent separate third party including either a private professional concern or a separate governmental agency or office shall perform the audit. The auditor selected shall be someone who is qualified and fully cognizant of the policies, laws and regulations of the County Commission. (Note: the county office of the auditor-controller who meets the qualifications as noted above and who is independent from the County Commission may perform the audit).

1. The auditor shall audit the financial statements and render an opinion as to the fairness of the presentation of the financial statements in conformity with accounting principals generally accepted in the United States of America.

2. The auditor shall review and provide a written report on internal controls and fiscal compliance of the County Commission as follows:

   (a) The auditor shall evaluate internal controls to ascertain whether the administrative and accounting system established ensures reasonable assurance to provide reliable and accurate information and maintain compliance with policies, laws, and regulations.

   (b) The auditor shall evaluate, as part of obtaining reasonable assurance about whether the Financial Statements are free of material misstatements, the County's Commission management of its funds and fiscal compliance with applicable policies, laws, and regulations.

(B) FINANCIAL STATEMENTS REQUIREMENTS

1. Each County Commission receiving funds from First 5 California shall prepare and submit by October 15th of each year audited financial statements in conformity with accounting principals generally accepted in the United States of America including the *Balance Sheet,* and *Statement of Revenues, Expenditures and Changes in Fund Balance.*

   The fund balance section of the Balance Sheet shall include as applicable the amounts and types of committed funds and uncommitted funds as defined in Attachment 1.

2. County Commissions receiving funds from the First 5 California for specific activities or programs including but not limited to the Retention Incentives and School Readiness programs shall show on the required financial statements these programs separate from other County Commission programs. This can be accomplished by including individual columns on the financial statements to report each program's detailed financial data.

(C) SUPPLEMENTARY REQUIRED INFORMATION

Each County Commission or their auditor shall issue a statement and certify that Commission funds have been used only to supplement existing levels of service and not to supplant state or local General Fund money for any purpose.

(D) RECORDS RETENTION

Each County Commission shall retain and safeguard all records regarding the County Commission funds for a minimum of three years after the annual audit and shall be made available and subject to inspection by the State of California Bureau of State Audits as specified in Government Code section 10528.

ATTACHMENT 1

First 5 Association of California
Definitions of Committed and Uncommitted Funds

April 23, 2004

In order to promote greater consistency in how County First 5 Commissions report what fund balances have been committed for future use and what funds remain uncommitted, more precise definitions of committed and uncommitted funds are shown below.

In broad terms, "committed funds" represent the portion of the fund balance that have been set aside for programs, projects, and activities to be conducted in the future according to a documented plan, budget, or financial forecast formally approved by the County Commission. As a result, these funds are unavailable for uses other than the purposes for which they were designated. "Uncommitted funds" represent the remainder of the fund balance, which either have not yet been allocated for a specific purpose or have been earmarked in only a general manner where the Commission has significant flexibility in changing the amount or nature of the designation.

The following is an example of segmenting the fund balance into committed and uncommitted amounts.

1.	Total Fund Balance	$ xxxxx
2.	Committed Funds	
	a) Encumbrances	xxxxx
	b) Approved Contracts Not Yet Executed (Obligations)	xxxxx
	c) Restricted Funds Not Yet Obligated	xxxxx
	d) Funds Invested in Capital Assets	xxxxx
	e) Reserved for First 5 California Initiatives	xxxxx
	f) Reserved for Local Initiatives and Program Sustainability	xxxxx
	Total Committed Funds	xxxxx
3.	Uncommitted Funds (1 – 2)	$ xxxxx

Definitions and guidelines for each element of the formula are provided below.

1. Total Fund Balance

The total fund balance represents the value of the funds available to the Commission. The term "total net assets" may be used instead of "total fund balance" on audit reports; these terms have the same meaning.

2a. Encumbrances

Encumbrances are contractual obligations to make future payments. The key-defining concept of an encumbrance is that it is legal obligation of a Commission based on an executed contractual agreement. Items that would be classified as encumbrances include but are not limited to:

- Future payments due to grantees and contractors to provide services for children and families;
- Future payments due on professional services contracts; and
- Future payments due under lease arrangements.

For purposes of determining the total amount of committed funds, encumbrances shown on the Annual Report should include all remaining payments due under written contracts for all remaining years of the contract. For example, if a three-year grant has been issued and you are still in the first year of the contract, the encumbrance amount used for the Annual Report would be the remaining payments due for the remainder of the first year of the contract plus all amounts scheduled to be paid in years two and three.

> *Note: This may deviate from how encumbrances are shown in the internal accounting records. Accounting policies for some counties specify that encumbrances only reflect the requirements for the current fiscal year under existing agreements.*

If the Commission, or the County for Commissions that operate as county agencies, has a policy of recording encumbrances at the time a purchase order is created, the value of all outstanding purchase orders and contracts (where no invoice has been received for payment) may be included in the encumbrance balance.

In all cases, amounts can only be classified as encumbrances on the Annual Report if (a) there is a fully executed written contract or purchase order detailing future payment obligations, and (b) it is probable or expected that future expenditures will be made in accordance with the contract terms. The latter provision means that if it is reasonably likely that a contract will be amended or terminated before all scheduled payments are made, the encumbrance must be limited to the total amount of payments that are expected to actually be incurred (if less than the full contract value).

2b. Approved Contracts Not Yet Executed (Obligations)

This category covers situations where the Commission has explicitly authorized and directed staff to enter into an agreement with a specified agency, but the contract has not actually been executed. For example, if the Commission has approved four new grants totaling $200,000 to specific organizations for specific projects or services but contracts have not been completed and signed for the grants, the $200,000 should be shown on the Annual Report as committed funds under this line item.

In order to qualify as committed funds on this line item, (a) formal action to approve the grant(s) and contract(s) must have been taken by the Commission and reflected in the public meeting minutes, and (b) the grant(s) and contract(s) must not have been executed yet, thereby avoiding any double-counting with the encumbrance line.

2c. Restricted Funds Not Yet Obligated

Funds that have been received by the County Commission from sources other than state tobacco tax allocations and that contain restrictions imposed by the funding source regarding how the money can be used are, by definition, committed to the purpose designated by the funding source. Examples that fall into this category include but are not limited to:

- Money received from the State Commission for specific programs or initiatives, such as School Readiness or Child Care Provider Retention Incentive funds, that must be used exclusively for the purpose designated by the State Commission; and
- Grants received from private foundations that contain restrictions in the grant agreement regarding how the funds may be used.

This line item should only include restricted funds that have been received but not yet authorized by the County Commission for release through a contract or purchase order. Care must be taken to avoid any double counting between amounts on this line and amounts included in the previous two line items.

> *Example: A $100,000 grant is received from a foundation that contains restrictions stating it must be used for civic engagement activities. The Commission has executed a $20,000 professional services contract using money from this grant, and has authorized another $10,000 contract, which has not been prepared yet. In this situation, the $20,000 contract would be recorded as an encumbrance on line 2(a), the $10,000 contract that was approved but not executed yet would be shown on line 2(b), and the remaining $70,000 would be shown on line 2(c) as restricted funds not yet released.*

Administrative augmentation and minimum allocation funds provided by the State Commission to smaller-budget counties should <u>not</u> be included. These funds do not contain mandated restrictions and are able to be used flexibly by the County Commission.

2d. Funds Invested in Capital Assets

Some Commissions show purchases of capital assets (also called fixed assets) as assets on the balance sheet. Examples of assets that may be capitalized and shown on the balance sheet are land, buildings, vehicles, equipment, furniture and leasehold improvements. In this situation, the undepreciated balance of fixed assets shown on the balance sheet would also be included in the total fund balance figure. Since purchases have already been made for the assets, it is appropriate to treat these amounts as committed funds.

The amount that would be listed on this line should be equal to <u>net</u> capital assets, which is total capital assets shown on the balance sheet minus total accumulated depreciation and amortization recorded for those assets.

Commissions that record all purchases of capital assets as expenditures in the year of purchase, rather than capitalizing and depreciating the assets, should enter zero on this line.

Note: This should only reflect capital assets that the Commission owns. It should not reflect assets that the Commission has funded at another third party or agency. Those are assets of the agency not the Commission.

2e. Reserved for First 5 California Initiatives

Several State Commission initiatives require participating counties to guarantee a matching investment from the County Commission. The total future amount that the County Commission must reserve in order to meet its matching guarantee should be treated as committed funds.

Amounts shown on this line item must meet the following criteria: (a) a local cash match is required in order to participate in a program sponsored by the State Commission; (b) a written plan has been approved by the State Commission that describes the program/services to be conducted and contains a budget showing how money is expected to be spent; and (c) specific annual dollar amounts of local cash match coming from the County Commission rather than other sources are shown in the written plan. The amount should include all future years that are explicitly covered by the plan and budget approved by the State Commission, but not additional years beyond what has been formally approved.

> *Example: A School Readiness Initiative proposal was submitted by the County Commission and approved by the State Commission that calls for the county to provide $200,000 a year for four years as a 1:1 match against state funds to operate a school readiness program. At the end of year 1, $200,000 had been expended and another $200,000 has already been contracted out to operate the program in year 2. In this situation, the $200,000 that has been contracted out would be included in the encumbrances on line 2(a), and the remaining $400,000 that must be reserved to meet matching obligations for years 3 and 4 would be shown here on line 2(e).*

2f. Reserved for Local Initiatives and Program Sustainability

The final category of committed funds consists of funds that have been reserved for one of the following two purposes:

1. Funds to operate a specific program or project in the current or future fiscal years that have not yet been encumbered or authorized for definite contracts, where all of the following criteria are met:
   - A written plan has been developed describing the program or project and the time period covered by the plan;
   - The plan contains a detailed budget or expenditure plan showing the amount of funds expected to be expended and the nature of the expenditures for each fiscal year covered by the plan;
   - The Commission has formally approved the plan and budget in a public meeting, as documented in the meeting minutes; and
   - The Commission certifies that it intends, to the best of its ability, to expend the funds in accordance with the plan and budget.

2. Funds that have been set aside for long-term program sustainability, where <u>all</u> of the following criteria are met:
   - A long-range financial plan has been prepared that shows the specific dollar amounts that must be reserved for program sustainability in each of the early years of the plan, the timing for when sustainability funds will started to be drawn down, and the nature of the expenditures that are envisioned in each year covered by the plan;
   - The Commission has formally approved the long-range financial plan in a public meeting, as documented in the meeting minutes;
   - The Commission certifies that it intends, to the best of its ability, to manage the sustainability fund in accordance with the provisions of the long-range financial plan; and
   - The Commission has adopted its annual budget consistent with the assumptions and plans in the long-term financial plan.

   When these criteria are met, the accumulated balance of the sustainability fund or account may be treated as committed funds.

Funds that have been earmarked for a specific purpose but without meeting all of the above criteria – for example, no detailed written plan and budget with formal Commission approval of a commitment to follow the expenditure plan – can <u>not</u> be listed here as committed funds. For purposes of the Annual Report, such funds would be included in uncommitted funds because there is still significant uncertainty regarding whether, or how, the funds will be expended.

Example: A formal Commission vote is taken to set aside $500,000 for a health access initiative, with direction to staff to develop a plan for the initiative. As of the end of the fiscal year, the plan and budget are not completed and approved by the Commission. The $500,000 cannot be listed on line 2(f) but would be included in the uncommitted funds balance.

3. Uncommitted Funds

The total amount of uncommitted funds is computed simply as the total fund balance minus the total committed funds, combining lines 2(a) through 2(f).